

Cahiers du Centre Emile Durkheim Working Papers

www.centredurkheim.fr

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Pockets of Effectiveness as Drivers of Change*

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ISSN 2116-5513

NEOPATRIMONIALISM AND DEVELOPMENT: POCKETS OF EFFECTIVENESS AS DRIVERS OF CHANGE

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Abstract

This paper focuses on the notion of 'pockets of effectiveness' in the light of the theorisation of regulated neopatrimonialism. The attention to pockets of effectiveness – understood as public organisations which deliver public goods and services relatively effectively in contexts of largely ineffective government – adds to the understanding of regulated neopatrimonialism by focusing on the conditions under which conditions public sector organisations may contribute to development.

The literature emphasises that two sets of factors contribute to the creation of pockets of effectiveness. Contextual political-economic factors relate to: political processes, political institutions and material interests and power positions of social groups. Internal factors concern organisational leadership and management, and the functions and attributes of organisations.

The paper analyses the operations of several oil and gas companies in Russia and Kazakhstan in order to see how these firms are influenced by their political-economic environment and how they manage, or fail, to establish developmental potential. Russia's political system is an example of regulated neopatrimonialism, while Kazakhstan is an example of a predatory form of neopatrimonialism. The paper concludes that the establishment of pockets of effectiveness in post-Soviet countries is rather difficult but not impossible in the case of Russia. The relative success of certain companies seems to result from the leadership's adjustment to external political-economic realities and the establishment of a modus vivendi with the incumbent regime.

Keywords

Neopatrimonialism, pockets of effectiveness, Russia, Kazakhstan, oil and gas companies

* I would like to thank Daniel Bach and Caroline Dufy of the Centre Émile Durkheim, as well as Aad Correljé (Delft University of Technology and Clingendael International Energy Programme) for their useful comments on an earlier version of this paper. This paper was written for a special issue of the *Revue Internationale de Politique Comparée*; the comments of two anonymous reviewers of the original submission are gratefully acknowledged.

Néo-patrimonialisme et développement : les poches d'efficacité comme pilotes du changement

Résumé

Cet article revient sur la notion de « poche d'efficacité » à la lumière de l'approche théorique du néo-patrimonialisme régulé. L'attention portée aux poches d'efficacité – au sens d'organisations publiques délivrant des biens et services publics de façon relativement efficace dans un contexte de gouvernements largement inefficaces – contribue à la compréhension du néo-patrimonialisme régulé en se concentrant sur les conditions dans lesquelles les organisations du secteur public peuvent contribuer au développement. La littérature sur le sujet souligne que deux ensembles de facteurs contribuent à l'émergence de poches d'efficacité. Les facteurs contextuels politico-économiques renvoient aux processus politiques, aux institutions politiques, aux intérêts matériels et aux positions de pouvoir des groupes sociaux. Les facteurs internes concernent le leadership et le management organisationnels, et les fonctions et les attributs des organisations. L'article analyse les opérations de plusieurs compagnies de pétrole et de gaz en Russie et au Kazakhstan afin de voir dans quelle mesure ces firmes sont influencées par leur environnement politico-économique, et la façon dont elles réussissent – ou pas – à construire un potentiel de développement. Le système politique russe est un exemple de néo-patrimonialisme régulé, alors que le système kazakh renverrait à une forme de néo-patrimonialisme prédateur. L'article conclut que l'établissement de poches d'efficacité dans les pays post-soviétiques est difficile, mais pas impossible, du moins dans le cas russe. Le succès relatif de certaines firmes semble ainsi résulter de l'ajustement du leadership aux réalités politico-économiques externes et à la mise en place d'un *modus vivendi* avec le régime en place.

Mots clés

néo-patrimonialisme, poches d'efficacité, Russie, Kazakhstan, compagnies pétrolières et gazières

1. INTRODUCTION

Under the influence of the dominant neo-institutional approach to politics and economics, contemporary accounts of development tend to be cast almost exclusively in terms of the institutional frameworks governing societies and economies (Sangmpam, 2007). The nature of the state has traditionally played an important role in neo-institutional explanations of development. In particular, the distinction between so-called 'developmental' and 'predatory' states has been a frequent point of reference in the debate on development outcomes¹. In Peter Evans' words, developmental states 'foster long-term entrepreneurial perspectives among private elites by increasing incentives to engage in transformative investments and lowering the risks', while predatory states 'extract such large amounts of otherwise investable surplus while providing so little in the way of "collective goods" in return that they do indeed impede economic transformation' (Evans, 1996: 44).

Although Evans included a third category in the 'heuristic' continuum from developmental to predatory states, and thus acknowledged the need for more complex theorising of the relationship between the nature of the state and development, his typology remained quite vague on the nature of what he called 'other apparatuses, intermediary states whose developmental impact is more ambiguous' (Evans, 1989: 563). Evans' critics pointed out that his approach seemed to collapse the (neo) patrimonial category too easily with that of the predatory state, thus leaving out 'important elements of variation among patrimonial polities' (Hutchcroft, 1998: 57). A more recent account of the need to theorise the intermediary category was provided by Daniel Bach, who coined the term 'regulated

¹ Seminal publications in this regard are: Evans P., 1989, and Evans P., 1996.

neopatrimonialism’ and distinguished this from ‘predatory forms of neopatrimonialism’, which are close to or identical with Evans’ category of the patrimonial state. Bach’s regulated neopatrimonialism can be interpreted as ‘neopatrimonialism *within* the state’, while predatory forms relate to ‘patterns of neopatrimonialism that permeate the *entire* state’. Regulated neopatrimonialism, according to Bach, allows some independent ‘capacity to craft “public” policies’ (Bach, 2012).

This paper argues that, apart from addressing the empirical problems following from the distinction between developmental and predatory forms of state, there is another reason why the analytical category suggested by Bach is important. Whereas the theorisation on predatory versus developmental states, as well as neopatrimonialism, seems to have focused almost exclusively at the macro-level (in particular, the form of the state in relation to society and the economy), Bach’s category of regulated neopatrimonialism allows for the analysis of meso- and micro-level phenomena. As a result of the use of this category, more emphasis can be placed on agency and leadership. Focusing on the limits of structural and institutional explanations of development problems, Adrian Leftwich has criticised these explanations for failing to see ‘the important success stories which run against the general patterns of institutional failure’ (Leftwich, 2010: 93). Such success stories, Leftwich argued, can be understood only by paying attention to ‘human agency – that means the *politics of development* – and in particular to the interactions of leaders and elites who dominate political, economic, military, communal, trade union, regional and ethnic interests, organizations and sectors in most polities’ (Leftwich, 2010: 95).

This paper focuses on so-called ‘pockets of effectiveness’² (Roll, 2013: 1) that exist in neopatrimonial contexts. Pockets of

² This term is used in conformity with Roll, who points out that alternative terms – such as ‘pockets of productivity’, ‘pockets of efficiency’ and ‘islands of effectiveness’ have been used elsewhere in the literature to denote similar phenomena.

effectiveness, as noted by Michael Roll, are ‘public organisations which deliver public goods and services relatively effectively in contexts of largely ineffective government’ (Roll, 2013: 1). The paper argues that the attention to pockets of effectiveness complements the theorisation of regulated neopatrimonialism by specifying under which conditions certain parts of the public sector may spur development. In this way, the pockets of effectiveness notion brings a dynamic element into a debate that tends to be dominated by ‘comparative statics’ (non-developmental versus developmental regimes). The focus on the conditions under which pockets of effectiveness can prosper adds value to our understanding of development as a social, political and economic project. In the context of this volume, it is the external impact of the pockets of effectiveness that is important: it is not so much the effectiveness *per se* of public organisations that matters here, but rather their ability, under certain circumstances, to act as *agents of development*.

The paper consists of five sections. The next section presents the notion of pockets of effectiveness, which are defined in terms of their internal features and relations to the external environment. Section 3 discusses what seem to be the main conditions for the establishment and strengthening of pockets of effectiveness, particularly in situations of neopatrimonialism within the state. The fourth section moves on to analyse several oil and gas companies in the post-Soviet republics. The objective of this section is to see to what extent the establishment of pockets of (relative) effectiveness is feasible in the oil and gas sector, which is generally perceived to be highly susceptible to rent-seeking behaviour and patrimonial politics. Section 5 contains the conclusions of the paper.

2. POCKETS OF EFFECTIVENESS

The concept of pockets of effectiveness has been around for a few decades. Initially coined by scholars working on Brazil, the term has later also been shown to be applicable to actors and processes in the African, Caribbean and Middle Eastern context³. Given the definition that was provided above, pockets of effectiveness need to be understood both in terms of their internal characteristics and in relation to their environment.

Internally, pockets of effectiveness are driven by the commitment of its members and leadership to provide goods and/or services that have a wider impact than just the organisation they are working for. The activities of institutions that are claimed to be pockets of effectiveness thus have a clearly public dimension, no matter whether the organisations themselves are rooted in the public, private or third sector (*e.g.* Leonard, 2010: 92-93). The ultimate motivation of the institutions need not be intrinsically oriented to the 'common good': private actors, whose commercial activities produce positive externalities and thus contribute to the provision of goods and/or services that spread throughout the public realm, can equally well be understood as pockets of effectiveness as can public-sector institutions.

This understanding of the internal characteristics of pockets of effectiveness is important in view of the relationship between the organisations and their environment. The extent to which the organisations can be considered as 'effective' sets them apart from the 'ineffective' context they are operating in. This implies that the level of performance of the organisations is not the rule in the societies they are part of, but rather the exception.

3 Cf. the analyses of the Brazilian National Development Bank in Schneider B., 1987, p. 228-229; Evans P.B., *op. cit.*, 1989, p. 577; and Geddes B., 1990, p. 225-229. For other contexts, see Owosu F., 2006, p. 471-485; Hout W., 2007, p. 1333-1352; and Hertog S., 2010, p. 261-301.

As David Leonard had phrased it, pockets of effectiveness are significant *because* they are functioning against the backdrop of 'weak governance states' (Leonard, 2010). In general, weak (or 'bad' [Moore , 2001: 385-418]) governance relates to situations in which the government is incapable or unwilling to provide public goods – in other words, situations where public policies are deficient. Government *incapability* is usually the result of breakdown of the state machinery (as in 'failed' or 'collapsed' states) as a consequence of massive internal conflict or major natural disasters. Government *unwillingness* is typically caused by capture of the state machinery by particular groups, who turn the state into an instrument to serve their interests rather than the 'common good'.

The use of the state machinery to serve private interests can take different forms, as was alluded to above. The most extreme cases – which can be conceptualised, in reference to Bach's interpretation (Bach, 2012: 31), as the 'patrimonialisation of the entire state' – offer very little scope for publicly oriented action. These cases can be thought of, in the words of Robert Jackson, as 'quasi-states', which are more a personal- or primordial-favoring political arrangement than a public-regarding realm. Government is less an agency to provide political goods such as law, order, security, justice, or welfare and more a fountain of privilege, wealth, and power for a small elite who control it. ... Those who occupy state offices, civilian and military, high and low, are inclined to treat them as possessions rather than positions: to live off their rents – very luxuriously in some cases – and use them to reward persons and cliques who help maintain their power (Jackson, 1987: 527-528).

Usually, such extreme forms of patrimonialisation can survive only because the state has external sources of revenues, and is not subjected to accountability mechanisms that are enforced by the citizens. Rents deriving from natural resources (such as oil, gas or

mining), import or export duties, and foreign assistance are usual sources for governments to maintain their support base among particular social groups (e.g. Ross, 2012: 67-71; Moore, 2002: 106). In such contexts, organisations are unlikely to obtain the independence and autonomy required to develop into genuine pockets of effectiveness.

In less extreme cases of patrimonialisation – referred to as ‘neopatrimonialism within the state’ (Bach, 2012: 31) – the state will likely be dependent on taxation for at least part of its resources. As a consequence, accountability mechanisms will most probably be stronger, and there will be greater opportunity for organisations to claim autonomy from the state (Moore, 2002). It is under these circumstances, if at all, that the likelihood of pockets of effectiveness is greatest (Leonard, 2010: 97).

3. CONDITIONS FOR POCKETS OF EFFECTIVENESS

The academic literature of the past decades contains a good number of analyses of pockets of effectiveness that came into being despite the adverse circumstances in the political-economic system they originated from. An inventory of a large number of case studies made recently by David Leonard has attempted to draw out five sets of ‘meta-hypotheses’ concerning the conditions under which pockets of effectiveness originate and continue to flourish. Leonard has arranged the five hypotheses into two broad categories, which comprise (a) factors related to the ‘contextual political economy’ and (b) internal factors contributing to effectiveness.

The contextual political-economic factors are divided into three groups by Leonard: political processes, political institutions and the underlying political economy. The three groups differ as to

the degree to which they can be manipulated (Leonard, 2010: 97-98). Political-economy factors, which are related to material interests and power positions of social groups, seem to be most deeply ingrained in the social order, and hence least likely to change. Political institutions – understood as durable patterns of behaviour and organisation of the political process – are likewise resistant to change, and thus tend to have long-lasting impacts on political processes. Of the three contextual political-economic variables mentioned by Leonard, political processes are most clearly influenced by the preferences of political actors. Leonard argues, *pace* Grindle, that ‘agency leaders and reformers have more room for manoeuvre here than many believe (although institutions and political economy must constrain them and heavily influence who is in a position to what to do what).’ (Leonard, 2010: 98)

As argued in section 2 above, contextual factors play a crucial role in the establishment of pockets of effectiveness. In terms of the causal order among the factors, Leonard argues that ‘[m]ost social scientists would hold that political economy ... shapes institutions ... and processes/strategies’ (Leonard, 2010: 99) and that the latter two variables tend to explain to a large extent the fate of pockets of effectiveness. Pervasive forms of neopatrimonialism, which permeate large sections of the state, may thus be inimical to the functioning of pockets of effectiveness. In cases where good leadership leads to the establishment of dynamic institutions, contextual factors may hinder their flourishing as they have created the circumstances in which powerful forces can successfully lay their hands on the rents that are being generated in effective entities. This implies that pockets of effectiveness are inherently unstable, as developments in their political-economic environment may impact on their survival.

A case in point is the fate of what is perhaps the archetypal pocket of effectiveness, the Brazilian National Development Bank (BNDE),

that was analysed in an articles by Barbara Geddes (Geddes, 1990). The result of an effort to create greater capacity in the Brazilian bureaucracy in order to bolster national development, BNDE was an example of a set of independent agencies that were directly accountable only to the executive. Intended to become one of the 'bolsões de eficiência' (pockets of efficiency), BNDE was created in 1952 under the presidency of Getúlio Vargas 'as a new agency, outside the federal bureaucracy, to try to decrease the ability of politicians to use funds for partisan purposes' (Geddes, 1990: 226). In the late 1950s, under Vargas' successors in the presidency, the BNDE obtained major resources and turned into a major player in the implementation of economic development plans, by both supplying finance and imposing performance criteria on other agencies involved in the execution of development projects, with a doubling of Brazil's industrial production as a result (Geddes, 1990: 225-229). The Brazilian innovation strategy of the 1950s disintegrated, according to Geddes, under president João Goulart. The tide turned against the BNDE, as Goulart did not support the independent agencies and subjected them again to traditional patronage conditions. The consequence of the policy change was 'a fall in performance as competence in the agency declined and as political decision criteria superseded economic decision criteria' (Geddes, 1990: 230).

Internal factors related to pockets of effectiveness play a role against the background of the contextual factors discussed in the first part of this section. The two meta-hypotheses formulated by Leonard in relation to internal variables focus on leadership and management, and organisations' functions and attributes. The understanding of the role of leadership and management in accounts of pockets of effectiveness often refer to the Weberian notion of rational-legal authority (Weber, 1978: 218-220). Inspired by Weber, interpretations emphasise expertise, rules, hierarchy and the absence of self-interests as vital preconditions for the development of effective leadership qualities and the

formulation of effective organisational missions.

According to Leonard, organisations require a mission that is formulated in terms of providing public goods or developing public policies in order to become genuine pockets of effectiveness. Likewise, they need leadership that is committed to the public goals set for the organisations. As to the prerequisites for the success of organisations, Leonard's synthesis of the literature points at the importance of the way in which these organisations are managed. Leadership, personnel management, resource mobilisation and organisational adaptation are, in his view, *conditiones sine qua non* for the rise and persistence of pockets of effectiveness: 'An organisation's "effectiveness" is largely determined by how it does its tasks—i.e. by management and leadership—not primarily by its function or its political context' (Leonard, 2010: 94). Next to the previous factors, Leonard emphasises that pockets of effectiveness often possess 'a pool of potential agency leaders who can act as "organisational entrepreneurs" to pull together the facilitating resources in the agency's internal and external environment and who have attributes that give them some degree of autonomy from political predation' (Leonard, 2010: 95).

The role that leadership, expertise and political insulation have played in concrete pockets of effectiveness is clearly visible in the case of the Brazilian National Development Bank (BNDE), the fate of which was described above. An important element in the success of BNDE during Juscelino Kubitschek's presidency between 1955 and 1961 was the Bank's emphasis of 'global rationality', in contrast to 'political' and 'short-term' rationality. Global rationality was aimed at the maximisation of growth by strengthening Brazilian industry, and was driven by highly-skilled functionaries in the organisation (Geddes, 1990: 227). Together with a set of other agencies within the Brazilian government, the BNDE was responsible for the successful achievement of a range of development targets related to, among others, the capacity

increase of electrical production and petroleum refining, the construction of roads and the improvement of wheat production (Geddes, 1990: 228). A major success factor, according to Geddes, was the fact that 'Kubitschek insulated the agencies crucial to the implementation of his development goals from those same clientelistic pressures in order to insure their competence and to secure steady and adequate investment for economic projects' (Geddes, 1990: 229).

4. HOW (UN)LIKELY ARE POCKETS OF EFFECTIVENESS IN THE POST-SOVIET CONTEXT? OIL AND GAS COMPANIES IN RUSSIA AND KAZAKHSTAN

Many analysts have emphasised that natural resource wealth has traditionally been an important source of rent-seeking and conflict. According to this literature natural resources have often turned out to be a 'curse' for national economies rather than a source of joy – hence the term 'resource curse' (Ross, 2012). In general, as was pointed out in section 2 above, the transmission mechanism of the resource curse is felt to be the lack of government accountability. As it was phrased by Ross, 'when governments gain most of their revenues from external sources, such as resource rents or foreign assistance, they are freed from the need to levy domestic taxes and become less accountable to the societies they govern' (Ross, 1999: 312). The impact of external wealth on the public sector is generally felt to be pernicious: states that are oriented towards rent-seeking tend to be weak and relatively ineffective, since they lack the incentives 'to reduce the influence of patrimonial principles and personal linkages when recruiting and managing the public service' (Moore, 2002: 316).

The dominance of the economy by extractive industries, as in the mining or oil sector, is felt to have crucial impacts on

development outcomes and characteristics of the state in many developing countries. Michael Shafer, among others, has pointed out that rent-seeking practices are rife among the governments of so-called mining states, such as Zambia (Shafer, 1994: 10, 23-24). The features of the mining sector, such as the high degree of capital intensity, the importance of economies of scale, and the inflexibility of the factors of production, make the sector a source of monopoly rents that are 'easily tapped by the state' (Shafer, 1994: 35). The amount of rents derived from a single natural resource, often exploited in an industrial enclave dominated by foreign capital, are often enormous. Such rents are generally unrelated to domestic industry and are controlled almost entirely by the state (Karl, 1997: 47-48). Countries with abundant hydrocarbon deposits occupy a special position among mining states since the scale and duration of the rents generated by the exploitation and export of oil and gas (and to a lesser extent, coal) are unprecedented for their governments (Karl, 1997: 49).

The nature of oil and gas states, and particularly the size and pervasiveness of the economic rents deriving from the exploitation of natural resources, make them particularly interesting for analysing the establishment of pockets of effectiveness⁴. The remainder of this section attempts to analyse several oil and gas companies in the former Soviet Union (Russia and Kazakhstan, in particular) in order to see how the dynamics of these firms are influenced by their political-economic environment and how they manage, or fail, to establish developmental potential.

The former Soviet republics making up the Commonwealth of Independent States (CIS) are an extraordinary source of oil and

4 Jones Luong and Weinthal have made the important point that the type of ownership structures that are chosen for the management of mineral wealth seem to mediate between resource abundance and institutional weaknesses, particularly of the fiscal regime (see Jones Luong P. and Weinthal E., 2010). This point is related to the argument made in this paper, but essentially addresses a different issue, as the focus here is limited to the conditions that facilitate or hamper the creation of pockets of effectiveness in the context of particular political regimes.

gas. Five of the eleven member-states are among the 48 leading countries in terms of proved oil reserves, while six of the countries are among the top-50 of proved gas deposits. Among the CIS states, Russia is the leading country when it comes to proved oil and gas reserves; the country is the world's eighth main source of proved oil, and the world's leading source of proved gas reserves. Kazakhstan is second to Russia in terms of oil reserves, and third to Russia and Turkmenistan in relation to gas reserves (BP, 2012: 6, 20).

The political systems in Russia and Kazakhstan are both, despite their differences, clearly authoritarian in nature. Russia's polity has been characterised by Margareta Mommsen as an example of 'patronal presidentialism', which is a hybrid of oligarchic and autocratic elements with a 'total interpenetration of business and politics' (Mommsen, 2012: 80-81). Kazakhstan has been described as a 'post-Soviet rentier state', which is dependent on the inflow of foreign revenues from the sale of oil and gas. The country is characterised by the political domination of a small elite around long-time president Nursultan Nazarbayev, which tries to maintain its hold on power and uses the country's natural resource rents for its own purposes as well as to garner support from the population (Franke, Gawrich and Alakbarov, 2009: 124-133).

The national oil and gas company of Kazakhstan, KazMunaiGaz, was established by presidential decree in 2002 in order to enhance government control of natural resource production and increase the production of oil and gas (Olcott, 2007: 7-9). KazMunaiGaz controls the important oil and gas producing company KMG Exploration and Production, of which it owns 62 per cent of the shares, as well as KazTransOil and KazTransGaz, the country's largest oil and gas transporters, where it is the only shareholder (Olcott, 2007: 20-22; Palazuelos and Fernandez, 2012: 32). KazMunaiGaz is governed by a Board of Directors, in which president Nazarbayev's son-in-law and nephew, next to other members of the ruling elite have been playing crucial roles

(Olcott, 2007: 20-22; Franke *et al.*, 2009: 126). Despite its official policy of privatisation and liberalisation, Kazakhstan has also known a 'renationalisation' process, the objective of which was to increase government control over the economy. The enforcement of a minimum property share of joint ventures for KazMunaiGaz and the imposition of production-sharing agreements⁵ were key elements of this policy (Libman, 2013: 9-10; Olcott, 2007: 24). Importantly, the Kazakh National Fund, created in 2001, is used to deposit a large share of national oil revenues and is reported to have increased to over US\$27 billion, or more than 20 per cent of Kazakhstan's gross domestic product, by 2008. The fund is controlled by president Nazarbayev, without effective oversight from Parliament, thus opening up the possibility for it to be used for outright political purposes (Palazuelos and Fernandez, 2012: 33; Franke *et al.*, 2009: 129-130).

Rosneft is a Russian state-owned oil corporation that emerged out of the Soviet Ministry of Oil Industry after the demise of the USSR. The firm was established to manage the stakes of the Russian state in 259 oil companies (out of some 300) that were operating in Russia at the time (Poussenkova, 2007: 3). Rosneft led a dwindling existence during most of the 1990s, leading Russian oil expert Nina Poussenkova to characterise the corporation as a minor player and one of the least efficient oil companies around the turn of the century (Poussenkova, 2007: 11). Rosneft, which escaped from the wave of privatisation in the Russian oil industry at the end of the 1990s – partly, it seems, because of its poor performance – subsequently became a useful vehicle for the political objectives of the new regime under Vladimir Putin. Putin emphasised the need for the Russian state to use the country's raw materials to generate economic growth and used Rosneft and its energy resources as 'a catalyst for establishing a greater

5 Production-sharing agreements are contracts on the sharing of oil revenues between national governments or national oil companies and foreign corporations. The latter corporations are typically responsible for the actual exploration and exploitation of oil sites. Cf. Bindemann K., 1999, p. 13-18.

role for Russia in the global economy' (Henderson, 2012: 2, 6). Rosneft subsequently became an instrument of the Russian state as 'a political phenomenon rather than an oil and gas company'⁶. The firm was allowed, as a state corporation⁷, to set the rules on production-sharing agreements and licenses in such a way that it could accumulate many oil production sites from the Arctic shelf to East Siberia. It played an important role in politically motivated projects in Kazakhstan, China, Algeria and the Caspian Sea region, and served to limit the influence of foreign oil companies in the industry (Poussenkova, 2007: 44-51). Rosneft's acquisition of Yuganskneftegas from the bankrupt estate of Yukos, financed behind the scenes by the Russian Ministry of Finance, made the corporation into Russia's leading oil corporation and by 2010 into one of the world's top ten oil producers (Poussenkova, 2007: 58-66; Henderson, 2012: 1).

The Russian gas sector is dominated by state-owned Gazprom, which has played a role vis-à-vis the Russian state that is highly similar to Rosneft's (Mommensen, 2012: 77). Joint Stock Society Gazprom was created in 1992 as the successor to the Soviet Union's Ministry of the Gas Industry by Viktor Chernomyrdin, who headed the Ministry at the time and became the company's first CEO. As Prime Minister, Chernomyrdin granted Gazprom its monopoly on gas exploration, transport and export (Åslund, 2010: 152-153). Gazprom's operations are characterised by the pervasive impact of the Russian state; hence the frequently heard claim that 'it is hard to determine where Gazprom ends and the Russian state begins'⁸. The government has systematically used its influence in Gazprom to keep domestic gas prices low for political purposes. Moreover, analysts note that President

6 Analysts of Russian investment firm Antanta Capital cited in Poussenkova N., *op. cit.*, 2007, p. 78.

7 Rosneft was partially privatised in 2006, but the Russian state maintains a 'super-majority' of the company's equity, which implies that it can dictate strategic decisions (Henderson J., *op. cit.*, 2012, p. 9).

8 P. Rutland cited in Jones Luong P. and Weinthal E., *op. cit.*, 2010, p. 220.

Putin has used the company's resources for financing election campaigns, for attacking the media oligarchs who were critical of his way of ruling the country, and for expanding the state's role in the economy by buying controlling state shares in mining and industrial companies (Jones Luong and Weinthal, 2010: 221-223).

Next to the state-owned oil and gas corporations that seem to have served mainly as either a political instrument (Rosneft and Gazprom) or a tool of rent-seeking and patronage (KazMunaiGaz), some private oil companies appeared to have been much more dynamic and promising in terms of their developmental potential. When the breakup of the Soviet Union offered the possibility in the early 1990s for the creation of vertically integrated oil companies, both Yukos and Lukoil were established as mergers of various existing oil producers (Henderson and Radošević, 2004: 225). Yukos came under control of the financial holding Group Menatep, led by oligarch Mikhail Khodorkovsky, while Lukoil was governed by Vagit Alekperov, Deputy Minister of Oil and Gas and director of one of three West Siberian oil producers that merged into Lukoil⁹.

Yukos was widely perceived as a dynamic oil company, which succeeded in creating a centralised management structure, with one division responsible for oil production, with seven subsidiaries, a refining and marketing division and three financial subsidiaries (Henderson and Radošević, 2004: 227-228). The company adopted Western-style management techniques and placed much emphasis on improving the skills of its employees (Dixon, Meyer and Day, 2007: 1493-1523). By 2003, Yukos produced almost 87 million tons of oil and explored expansion

9 TNK-BP, which prides itself on being 'a leading Russian oil company and ... among the top ten privately-owned oil companies in the world in terms of crude oil production', is not discussed here because the firm is effectively a Russian subsidiary of BP, which is owned for 50 per cent by a consortium of Russian investment, financial and industrial groups (see TNK-BP, 'About TNK-BP', <http://tnk-bp.ru/en/company>, accessed 7 December 2012).

of its operations to the United States. In the same year, however, Yukos CEO Khodorkovsky came under attack from the Russian public prosecutor after he had confronted President Vladimir Putin on issues of corruption in the Russian state apparatus. Khodorkovsky was sentenced to jail in October 2003 after what many believe was a politically-inspired trial. Yukos went bankrupt and its assets were sold off. According to Poussenkova, '[t]he YUKOS case marked the beginning of the rapid nationalization of the Russian oil sector and aggressive redistribution of assets in favor of state-owned companies' (Poussenkova, 2010: 110).

Since the demise of Yukos, Lukoil has meanwhile become Russia's biggest oil company after state-owned Rosneft with a production of 90.9 million tons in 2011¹⁰. In the twenty years of its existence, Lukoil has adopted a strategy of diversification and internationalisation. Next to the production of crude oil, the company has invested in refinery capacity and the setting up of service stations. Its presence in international markets focuses on upstream activities related to oil production in several former Soviet republics, such as Kazakhstan, Uzbekistan and Azerbaijan, and oil exploration in Saudi Arabia, Iran, Egypt, Côte d'Ivoire, Ghana, Colombia and Venezuela. Lukoil's downstream operations include refinery (as in Romania, Bulgaria, Ukraine and The Netherlands) and the ownership of petrol stations (in the United States, the Czech Republic, Poland, Hungary and Finland) (Gorst, 2007: 20-32; Poussenkova, 2010: 105-109).

Lukoil's success in upstream and downstream expansion is not necessarily equalled by its operational success. When compared to other major oil companies, Lukoil's technical efficiency (measured as the revenue generated from employees and oil reserves) is limited. Calculations by researchers from Rice University indicate that in 2004 Lukoil's revenue per employee amounted to US\$233

10 Lukoil, 'Oil Production,' http://www.lukoil.com/static_6_5id_254_.html, accessed 15 April 2013.

and its revenue per barrel of oil equivalent was US\$1.68. This is well below the average realised by independent oil companies of, respectively US\$1,629 per employee and US\$11.24 per barrel (Eller, Hartley and Medlock, 2007: 11-12). Some indicators of Lukoil's performance seem to suggest that the company is more successful than two government-dominated Russian companies. Lukoil's profits as a percentage of assets compare positively to those realised by Rosneft and Gazprom: in 2009, Lukoil's profits of US\$9.51 billion equalled 16.1 per cent of its total assets, while Rosneft's US\$11.12 billion in profits was 14.4 per cent of asset value and Gazprom achieved 9.7 per cent profit (US\$26.78 billion) (Filippov, 2010: 330). Other indicators indicate that Rosneft has recently been more successful in some respects than Lukoil, but this seems to be the result, at least to a considerable extent, by the fact that national oil company Rosneft is favoured by the state with regard to tax payments and the giving out of new licences (Henderson, 2012: 17-20).

In terms of its management performance, Lukoil seems to compare favourably to other (state-owned) Russian oil companies. As pointed out by James Henderson and Slado Radošević, Lukoil was leading industrial restructuring in the second half of the 1990s. The company managed to bring its subsidiaries into one single entity and thereby managed to control its overall cash flows. Overall coordination among the various parts of the organisation, however, remained a weakness within Lukoil. Comparing Lukoil to Yukos, its main competitor of the early 21st century, Henderson and Radošević point out that the former's production costs per barrel of oil were far higher than the latter's (Henderson and Radošević, 2004: 226-229). As indicated by three analysts of management techniques, Lukoil displayed more openness to modern management skills, but 'still lagged far behind the western-style companies' such as Yukos (Dixon, Meyer and Day, 2007: 1511).

The fate of Lukoil and Yukos in the first decade of this century

could hardly be more different. While Yukos went bankrupt, Lukoil's Vagit Alekperov cooperated with the Russian leadership and maintained a degree of relative autonomy. Lukoil established itself formally as a private enterprise, when the last government-owned shares were sold to ConocoPhillips in 2004 (Poussenkova, 2010: 110; Gorst, 2007: 40). Lukoil's leadership seems very responsive to government priorities and appears to operate with the explicit agreement of the Russian authorities (Filippov, 2010: 322). For instance, Lukoil cooperated with the Russian government on the issue of gasoline pricing by not increasing prices in 2005 and managed to avoid Western takeover of refineries in Eastern Europe by buying up these plants ahead of US- and EU-based companies (Gorst, 2007: 28-29).

The above discussion suggests that the room for the establishment of pockets of effectiveness in post-Soviet countries is rather limited. To the extent that a company such as Lukoil has proved to be successful, the company's accomplishments and relative autonomy seem to have been the result of the leadership's realisation that adjustment to the external political-economic reality brings benefits. As a corporate entity, the company is relatively successful – particularly in the light of Yukos' demise and the use of state-owned Rosneft and KazMunaiGaz for outright political or clientelistic purposes – and may be seen as a pocket of relative effectiveness¹¹. In the highly politicised environment of contemporary Russia, the firm's understanding of the balance of power seems to be crucial for its flourishing.

¹¹ James Henderson's analysis of Rosneft seems to suggest that also this company may in the future be allowed greater independence from the Russian state, manifested in its governance structure and further privatisation. Coupled with its attempt to implement new technologies, this may lead Rosneft to acquire more features of a pocket of relative effectiveness. Writing in early 2012, Henderson does warn about too high expectations on Rosneft's potential, as the informal influence of the Russian state remains very significant (Henderson J., *op. cit.*, 2012, p. 49, 55).

5. CONCLUSION

The focus of this paper has been on the emergence of so-called pockets of effectiveness in situations of regulated neopatrimonialism, where certain domains within the state become victim of particular specific interests but the independent capacity for formulating public policies is still remaining intact. It was argued that the pocket of effectiveness concept can be useful to shed light on the dynamics in 'non-developmental' states, where developmentally oriented actors aim at providing goods or services with a broader social impact beyond the organisation they are employed in. Particularly, cases of 'neopatrimonialism within the state' where citizens can hold the state accountable for the use of tax revenues would seem to offer possibilities for organisations to claim autonomy from the state and develop into pockets of effectiveness.

In an attempt to distinguish between different analytical categories, two main sets of conditions for the emergence of pockets of effectiveness were discussed above. On the basis of David Leonard's synthesising work, a distinction was made between contextual political-economic factors and internal factors contributing to effectiveness. Political-economic characteristics – concerning political processes, political institutions and the structure of interests and power – were felt to be important conditions for the creation of pockets of effectiveness. The contribution of internal factors, concerning organisational leadership and management, and organisations' functions and attributes, was seen as a likely *sine qua non* for the coming into being of pockets of effectiveness.

In terms of the social and political contexts, the experiences of natural resource producers in Russia and Kazakhstan seem to suggest that there is some, yet limited, space for pockets of effectiveness to emerge in the post-Soviet sphere. The examples of state-owned oil and gas companies in both cases illustrate that

it is difficult to escape from the grip of dominant political forces, which attempt to make their operations subservient to the interests of the ruling elite, as in the case of neopatrimonial Kazakhstan, and of the wielders of state power, as in presidential Russia. The experience of Russian Lukoil seems to suggest that there is some leverage for companies if they understand how to deal with the country's political power holders and find a working relationship with the incumbent regime. The relative success of such cases remains, however, unstable and is ultimately dependent on their ability to negotiate some autonomy from the state.

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